

Message Text

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ACTION EUR-12

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TAGS: ECON, EGEN, YO
SUBJECT: PRICE INCREASES THREATEN STABILIZATION PROGRAM

REF: BELGRADE 501; BELGRADE 1401

SUMMARY: REFLECTING STRONG INFLATIONARY PRESSURES, THE COST OF LIVING HAS RISEN ABOUT 10 PERCENT IN THE PAST FOUR MONTHS. CONCERNED GOVERNMENT AND COMMUNIST PARTY SPOKESMEN ARE STRESSING THE IMPORTANCE OF THE ECONOMIC STABILIZATION PROGRAM IN AN INCREASINGLY DIFFICULT EFFORT TO HOLD 1977 PRICES TO LAST YEAR'S RATES. END SUMMARY.

1. WHILE THE 12 PERCENT OVERALL INCREASE IN THE 1976 COST OF LIVING WAS MODERATE IN COMPARISON TO RECENT YUGOSLAV EXPERIENCE, THE TREND BEGUN IN NOVEMBER HAS BEEN MORE INFLATIONARY AND HAS FOCUSED GOVERNMENT AND COMMUNIST PARTY ATTENTION ON THE PROBLEM OF PRICE INCREASES. THE COST OF LIVING HAS INCREASED BY ABOUT 10 PERCENT FROM NOVEMBER THROUGH FEBRUARY, PRIMARILY DUE TO INCREASED FOOD PRICES. RETAIL AND PRODUCER PRICE INCREASES ARE
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SOMEWHAT LOWER, BUT STILL ABOVE THE LEVELS CALLED FOR IN THE 1977 RESOLUTION. STILL TO BE REFLECTED IN THESE STATISTICS IS A 19 TO 33 PERCENT INCREASE IN GASOLINE AND MOST OIL DERIVATIVES, AND A LARGE INCREASE IN THE PRICE OF COFFEE (HEAVILY WEIGHTED IN COST OF LIVING STATISTICS).

MONTHLY INCREASES
COST OF RETAIL PRODUCERS

	LIVING	PRICES	PRICES
NOV.	3.7 PCT.	2.3 PCT.	1.4 PCT
DEC.	2.6 PCT.	1.2 PCT.	.6 PCT.
JAN.	2.7 PCT.	1.7 PCT.	1.1 PCT.
FEB.	.8 PCT.	.5 PCT.	.7 PCT.

2. REACTING TO THESE INCREASES AND THE PRESSURES WHICH CAUSED THEM, GOVERNMENT AND COMMUNIST PARTY SPOKESMEN HAVE BEEN VIGOROUSLY SPEAKING OUT ON THE NEED FOR PRICE DISCIPLINE AS A KEY PART OF THE ECONOMIC STABILIZATION PROGRAM. THE PRESS HAS BEEN FILLED WITH EDITORIALS AND INTERVIEWS WITH SENIOR OFFICIALS ON THE NECESSITY OF MAINTAINING 1977 PRICE INCREASES AT THE AGREED LIMITS, I.E., AT THE 1976 RATE OF INCREASE. THE FEDERAL EXECUTIVE COUNCIL, WHICH HAS CONSISTENTLY BEEN IN THE FOREFRONT OF THE BATTLE AGAINST INFLATION, HAS SPONSORED A SOCIAL ACCORD ON 1977 PRICE POLICY WHICH ESSENTIALLY LIMITS INCREASES TO THESE RATES. THE COST OF LIVING SHOULD INCREASE BY NO MORE THAN 12 PERCENT; SERVICES BY 8.5 PERCENT; RETAIL PRICES BY 9 PERCENT; AGRICULTURAL PRODUCER PRICES BY 10 PERCENT; AND INDUSTRIAL PRODUCER PRICES BY 9 PERCENT. ALL THE REPUBLICS AND AUTONOMOUS PROVINCES WERE SIGNATORIES OF THE ACCORD.

3. IT IS INCREASINGLY CLEAR, HOWEVER, FROM PRIVATE AND EVEN PUBLIC STATEMENTS OF KNOWLEDGABLE YUGOSLAVS IN GOVERNMENT, PARTY, AND BANKING CIRCLES THAT EVEN THE REGULATORS AND POLICY-MAKERS DO NOT BELIEVE PRICES CAN BE HELD TO THESE LEVELS. A CONSENSUS IS DEVELOPING THAT THE RATE OF INCREASE IN THE COST OF LIVING WILL BE 15 PERCENT WITH MORE CAUTIOUS OFFICIALS STATING THAT THE INCREASE WILL BE "AROUND" THAT OF LAST YEAR.

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4. DR. DUSAN ANAKIOSKI, DEPUTY FEDERAL SECRETARY FOR MARKETS AND PRICES, TOLD EMBOFF ON MARCH 17 THAT HIS PRIMARY CONCERN IS RETAIL PRICES AND THE COST OF LIVING. "INDEXATION" (THE MATCHING OF WAGE INCREASES TO INFLATION) OCCURS VERY RAPIDLY IN YUGOSLAVIA, ACCORDING TO ANAKIOSKI, AND COULD LEAD TO FURTHER PRICE PRESSURE. HE PREDICTED THAT THE COST OF LIVING WOULD RISE TWO POINTS IN MARCH AND APRIL, BASED ON INCREASES ALREADY APPROVED AND IN EFFECT. THIS WOULD BRING THE 1977 TOTAL INCREASE IN THE COST OF LIVING TO 5.5 PERCENT. NEVERTHELESS, HE WAS OPTIMISTIC THAT TOTAL 1977 INCREASES WOULD BE "AROUND" THE TARGET LEVELS. HE BASED HIS BELIEF ON THE "QUIET" IN THE AREA OF PRODUCER PRICE INCREASE REQUESTS. THESE PRICES, ACCORDING TO

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ANAKIOSKI, WILL INCREASE BY ONLY 5 PERCENT IN THE FIRST HALF OF
1977 AND WILL BRAKE THE OTHER PRICE INDICES AS WELL.

5. MANY OF THE FACTORS CONTRIBUTING TO THE CURRENT INFLATIONARY
PRESSURE ORIGINATED IN THE YUGOSLAV RESPONSE TO A STAGNATION OF
INDUSTRIAL PRODUCTION IN THE FIRST HALF OF 1976. A SERIES OF
STIMULATIVE MEASURES, INCLUDING REDUCTIONS IN TURNOVER TAXES AND
CREDIT LIBERALIZATIONS, WERE PASSED TO INCREASE DEMAND. AT THE
SAME TIME, INCREASES IN THE MONEY SUPPLY OF ALMOST THREE TIMES THE
PLANNED 18 PERCENT WERE TOLERATED, PRIMARILY BECAUSE REGULATORS
WERE AFRAID THAT ANY RESTRICTIONS WOULD DAMPEN THE INDUSTRIAL
REVIVAL. INDUSTRIAL PRODUCTION DID INCREASE IN THE SECOND
HALF OF THE YEAR AND DURING JANUARY AND FEBRUARY INCREASED AT
A RATE OF 9 PERCENT OVER THE SAME PERIOD LAST YEAR. THE INCREASED
DEMAND SHOWN BY THIS RATE OF PRODUCTION HAS BEEN A MAIN CONTRIBUTOR
TO THE INFLATIONARY PRESSURE. THE INCREASED MONEY SUPPLY AND
ACCOMPANYING INCREASE IN LIQUIDITY AT ALL LEVELS HAS BOTH ENCOURAGED
THIS INCREASE IN DEMAND AND MADE IT EASIER FOR THE DEMAND TO BE
EXPRESSED IN HIGHER PRICES.

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6. ANOTHER AREA OF PRESSURE IS THE FINANCIAL PERFORMANCE OF
INDIVIDUAL ENTERPRISES. LAST YEAR SAW AN INCREASE IN LOSSES
IN THE ENTERPRISES, PRIMARILY DUE TO WAGE INCREASES OF OVER
20 PERCENT AND INCREASED TAXATION OF THE ENTERPRISES BY VARIOUS
GOVT LEVELS. CAPITAL ACCUMULATION HAS DROPPED SHARPLY. IMPORT PRICES,

INCLUDING OIL, HAVE INCREASED. THE ENTERPRISES ARE NOW LOOKING FOR PRICE INCREASES TO ALLEVIATE THIS SITUATION.

7. COMMENT: ONLY ABOUT ONE-THIRD OF THE PRICES IN YUGOSLAVIA ARE DIRECTLY CONTROLLED BY THE FEDERAL GOVT THROUGH THE SECRETARIAT FOR MARKETS AND PRICES. ACCORDING TO ANAKIOSKI, ANOTHER ONE-THIRD ARE SUBJECT TO SOCIAL AGREEMENT AMONG ENTERPRISES AND SOCIO-POLITICAL COMMUNITIES. THE REST, AT LEAST IN THEORY, ARE REGULATED BY MARKET FORCES. ALL ARE SUBJECT TO COMMUNIST PARTY, GOVT, AND COMMUNITY JAWBONING IN VARYING DEGREES. THIS UNCERTAIN SYSTEM OF REGULATION IS NOW CONFRONTING INFLATIONARY PRESSURES WHICH ARE FAR STRONGER THAN THOSE IN THE SIMILAR TIME FRAME A YEAR AGO. GIVEN THESE FACTORS, A COST OF LIVING INCREASE IN THE RANGE OF 15 TO 18 PERCENT IS LIKELY FOR YUGOSLAVIA IN 1977. YORK

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